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SUBJECT: SHIMON PERES SAYS ECONOMIC AID NEEDED TO STABILIZE
NEW "IMPROVED" PALESTINIAN LEADERSHIP

Classified By: Ambassador Daniel C. Kurtzer for reasons 1.4 (b) and (d)

1. (C) Summary: Labor Party Leader Shimon Peres told Codel Lieberman and the Ambassador December 27 that the Palestinian humanitarian situation is "quite serious," and acknowledged that Israel has a "window of opportunity" to advance the Israeli-Palestinian peace process. Calling the Palestinian political system "broken," Peres said that internal divisions among Palestinian leaders are complicating their efforts to gain legitimacy and stabilize a new government. He told Senator Lieberman that the U.S. should provide assistance to the Palestinians through corporate investments and the World Bank, rather than via direct aid. Senate staff members, military escort and poloff also accompanied Senator Lieberman. End Summary.

PALESTINIAN ECONOMIC NEEDS/NEW LEADERSHIP

2. (C) Peres told Senator Lieberman that the humanitarian situation in Gaza is "heartbreaking" and that Israel and the U.S. should "act in a hurry." He praised Acting PLO Chairman Abu Mazen as a well-intentioned, serious leader, adding that Israel could not find a better partner. Referring to Palestinian Prime Minister Abu Ala'a, Peres said "we hope that we will work well together."

3. (C) Senator Lieberman told Peres that the Palestinian Minister of Negotiation Affairs, Sa'eb Erekat said in an earlier meeting (Congen Jerusalem septel) that he will be very focused on economic changes within the Palestinian territories, especially following the January 9 elections. Peres replied that the Palestinians need "immediate economic assistance" and that a concentrated effort by the U.S. and European donors to mobilize the economy is necessary. He suggested that instead of giving the Palestinians money directly, the U.S. should encourage its 50 largest corporations, each of which Peres described as having larger budgets than most countries, to invest in the Palestinian territories. He specifically noted that Motorola and Hewlett-Packard had positively impacted Jordan's economy by opening offices there. Peres said that the GOI will not increase the number of Palestinians working in Israel in the future. Peres opined that the World Bank could manage economic development in the Palestinian territories and that the U.S. should empower the World Bank to provide immediate help to the Palestinians. He added, however, that the Palestinians should not receive special treatment.

4. (C) Ambassador Kurtzer noted that the U.S. is currently withholding some of its financial assistance to the Palestinian Authority because of continuing safety concerns in Gaza and the failure of the PA to undertake security measures, as demonstrated by the lack of investigative cooperation following the October 2003 attack on a U.S. convoy in Gaza.

GAZA DISENGAGEMENT

5. (C) Turning to the Gaza disengagement plan, Peres predicted that Israeli troops will withdraw on time, in mid-2005, and said that Israel will implement unspecified "more permanent solutions" during and immediately following this withdrawal. Peres also suggested an "interim solution," in which Israel would withdraw from the Philadelphi strip and thus allow Palestinians to move to and from Egypt. Peres suggested that a fleet of helicopters to patrol the area could assuage Israeli security concerns. Peres also said that the full impact of the Gaza disengagement would not be known for at least one year after completion and told Senator Lieberman that the 2006 Israeli general elections could influence the Israeli political landscape and future disengagement plans. Peres predicted that the pace of negotiations with the Palestinians will increase following Gaza disengagement in 2005.

16. (C) Commenting on former PA Gaza security chief Mohammad Dahlan and former West Bank security chief Jibril Rijoub, Peres said "we are trying to ensure that they are not accused of being agents or semi-agents of Israel." He said that Israel is considering another release of Palestinian prisoners in the near future. Peres said "there is not much Israel can do with or without Dahlan."

THE U.S. ROLE

17. (C) Peres emphasized that any international financial assistance to the Palestinians, especially by the U.S., should be contingent on the Palestinian Authority "putting its house in order." Peres said that the Palestinians must be helped and that Israel should begin dialogue with Hamas and Islamic Jihad. He said that "Sharon is at the center" of this process, but that any policy of not talking with the Palestinians until Israel leaves Gaza is "too long a period of time." Peres said that Abu Mazen cannot completely stop the violence, but that he can "start fighting terror any time." Peres concluded by saying that while he is "not blind to the difficulties ahead" there is a window of opportunity for peace and that Abu Mazen is a good choice of partners.

18. (U) Codel Lieberman did not clear this message.

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KURTZER